

# **ALBERTA BUSINESS OUTLOOK, 2000**

**December 1999**



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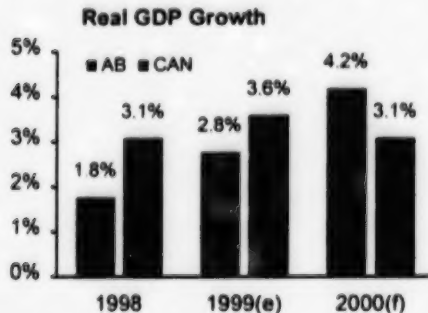
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## KEY INDICATORS

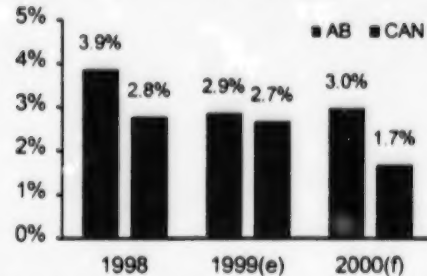
- After a growth slowdown in the second half of 1998 and first half of 1999 because of low commodity prices, Alberta's economy resumed strong growth in the second half of 1999. Based on forecasts prepared by private agencies and current trend information, real GDP growth for Alberta is estimated at 2.8 per cent in 1999, below the national average of 3.6 per cent.



Sources: Alberta Treasury; Statistics Canada; AED

- In 2000, economic growth is forecast at 4.2 per cent for Alberta and 3.1 per cent for Canada. A strong energy sector, stronger consumer demand and increased exports will fuel Alberta's growth in 2000. All forecasters predict Alberta to be among the top three provinces in 2000, and two of them have picked Alberta to lead the country in growth.
- Based on data for the first eleven months of 1999, employment growth is expected to slow from 1998. However, employment is still expected to post a healthy 2.9 per cent increase, adding an additional 44,000 jobs to the provincial labour force in 1999. Employment growth is forecast to strengthen slightly in 2000 to 3 per cent.

## Employment Growth



Sources: Statistics Canada; AED

- After increasing very little during the first half, retail sales have grown considerably during the past few months, and are now expected to increase by 4 per cent for the year. In 2000, retail sales are expected to remain strong, and growth is forecast at 4.8 per cent.
- Agriculture is one sector that remains weak, primarily due to low grain and oilseed prices. Farm cash receipts are expected to increase by about 1 per cent in 1999 to \$6.47 billion. Revenue from cattle sales and direct payments are expected to increase, offsetting the impact of lower prices and returns to grains and canola. Forecasts for 2000 are for increases in cash receipts and farm net income, led by the livestock sector and program payments.
- Given the recent rise in oil prices, the average price in 1999 for West Texas Intermediate (WTI) should be about US\$19.20 per barrel, compared to US\$14.43 in 1998.

- Natural gas prices have been stronger in 1999 than they were in 1998, as a result of greater US demand and additional pipeline capacity to the US market. Based on actual prices and futures trading levels as of December 10, 1999, the price of natural gas is expected to average Cdn\$2.46 per thousand cubic feet for 1999, compared to Cdn\$1.94 in 1998.
- According to the Canadian Association of Oilwell Drilling Contractors, the industry is expected to drill approximately 10,200 wells in Western Canada in 1999, compared to 9,744 last year. The forecast for 2000 is for over 14,300 wells.
- Alberta's forest product shipments are expected to increase by about 10 per cent in 1999, and will see continued growth in 2000. The industry is relying on improvements in Asian economies and a continued low value of the Canadian dollar.
- Lumber prices are expected to decline as the US housing market slows in 2000. This would offset expected increases in Japanese demand. Prices for paper and especially pulp are expected to increase in 2000.
- Manufacturing activity should contribute to Alberta's economic growth in both 1999 and 2000, with shipments expected to grow by 4.5 per cent in 1999 and by about 5.5 per cent in 2000, mostly as a result of strong export growth.
- Housing starts are expected to decline from a peak of 27,100 units in 1998 to 25,500 in 1999. Slower employment growth and a reduction in provincial immigration has slowed the demand for new housing. A single-family home inventory oversupply in Calgary also negatively affected housing starts.
- The housing outlook for 2000 is mixed. A firming up of resource prices and a stronger global economy will increase the

demand for new housing, but an oversupply of condominiums in Calgary could constrain the number of starts. As a result, starts are forecast to increase slightly to 25,800 in 2000.

- 1999 was a rather modest year for Alberta's tourism industry, with the exception of the Mountain Parks, which experienced strong growth from international markets. The forecast for 2000 is for continued growth in the US and overseas markets. Positive growth is also expected from the domestic market, although Albertans travelling for pleasure are expected to be quite price-sensitive. Overall, tourism revenues in Alberta are expected to reach approximately \$4.2 billion in 1999 and \$4.5 billion in 2000.

## AGRICULTURE

- Farm cash receipts are expected to increase by about 1 per cent in 1999 to \$6.47 billion. Revenue from cattle sales and direct payments from both provincial and federal governments are expected to increase, offsetting the impact of lower prices and returns to grains and oilseeds.
- Forecasts for 2000 are for increases in cash receipts and farm net income, led largely by the livestock sector and program payments.
- Exports of primary and value added agricultural products are expected to be down overall in 1999, due to low commodity prices and reduced grain and live cattle exports. However, exports of value added products will continue to grow, with beef and pork leading the way. Exports to the US will continue to increase, largely as a result of higher demand for value added products.

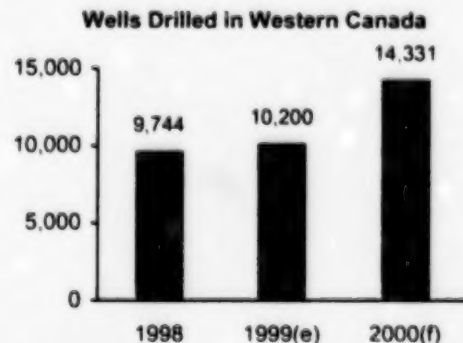
- Currently, cattle markets are very strong due to inventory reductions, stronger demand and lower grain prices, which have improved returns. Prices are well above the five-year average.
- The Canada/US trade dispute on live cattle has not negatively impacted the beef industry. The reduction in live cattle exports to the US is the result of increased slaughtering activity in the province.
- Canola producers are expected to harvest a record crop in 1999 as a result of higher acreage and expected record yields. However, significantly lower prices brought on by increased world production will reduce canola cash receipts by over 25 per cent.
- Wheat production is expected to be more than 20 per cent higher in 1999, but cash receipts will remain under the \$1 billion mark, as a result of prices which are well below the five-year average, and a higher than normal proportion of feed wheat supplies.
- Hog prices collapsed during the 1998 Christmas season, but have now recovered to the 1998 levels before the collapse. Most hog producers are now breaking even with prices expected to improve in 2000. Consolidation into larger operations and improved efficiency continues.

## ENERGY

- Weak oil prices in the earlier part of the year prompted consolidation among Alberta's petroleum producers. With an improved outlook, activity in the industry will increase this winter.
- Offsetting the impact of weak oil prices during the first part of 1999 were Alberta's oil sands investments. The long lead times and large on-going investment in oilsands

provided stability during the downturn in the energy sector.

- Recent increases in the price of crude oil reflect expectations that excess inventories would be reduced in the fourth quarter of 1999. In September of this year, OPEC confirmed its commitment to maintain current output cutbacks until the end of March 2000.
- With the elimination of excess inventories by the end of 1999, further upward pressure on prices is expected, in particular if there is a colder than normal winter.
- With higher prices for crude oil, cash flows for producers will improve, and an increase in exploration and development in early 2000 is expected. The Canadian Association of Oilwell Drilling Contractors (CAODC) expects 14,331 Western Canadian wells to be drilled in 2000. Approximately, 10,500 of these will be from Alberta.



Source: CAODC

- The average annual price of West Texas Intermediate (WTI) should average US\$19.20 per barrel this year.

- The natural gas industry continues to flourish. The opening of the Alliance pipeline will increase export capacity to the US mid-west by about 20% by late 2000.
- Natural gas prices in Alberta have been rising in response to greater US demand and additional export capacity to the US. The Northern Border pipeline to the US is already operating close to capacity.
- With US gas production stagnant and a 2 to 3 per cent annual growth in demand, there will be an increasing reliance on Canadian gas supplies. This will advance drilling activity in Alberta.
- Based on actual prices and futures trading levels as of December 10, 1999, the fieldgate price of natural gas is expected to average Cdn\$2.46 per thousand cubic feet for 1999.

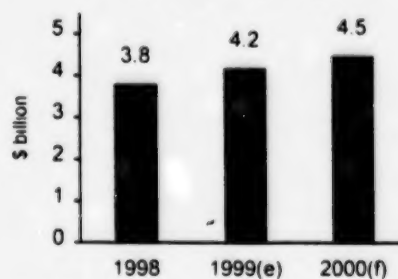
## Forestry

- The Canada-US Softwood Lumber Agreement remains a significant obstacle facing the forest industry. For instance, US Customs placed quotas on certain types of Canadian lumber in June 1999. It is expected that renewal of the Agreement in its current form is in jeopardy.
- A record year for US housing construction increased lumber prices in 1999. Despite this growing demand, Canadian exports to the US have been constrained by the Softwood Lumber Agreement.
- Overseas, Japanese demand for forestry products is starting to grow as its housing market strengthens. However, these improvements will be overshadowed by lower growth in the much larger US market.
- For 2000, continued strong production and an expected slowing down in the US housing market should keep lumber prices down. Lumber prices should average

about US\$340 per thousand board-feet (mbf) in 1999 and fall to US\$290 in 2000.

- The improvement in the market for pulp has shifted pricing power to producers. Sustained demand from Europe, a recovery in Asia and limited capacity worldwide are expected to increase prices in 2000.

**Alberta Forestry Shipments**



Sources: Statistics Canada, AED

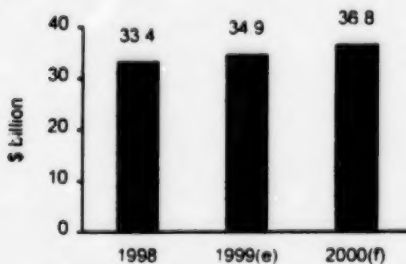
- Northern Bleached Softwood Kraft (NBSK) should increase from about US\$535 per tonne in 1999 to just over US\$600 per tonne next year.
- The current supply of newsprint exceeds demand – influenced by the end of strike activity in Abitibi-Consolidated mills. Despite strong US consumption and offshore trade improvements in recent months, relatively high operating rates have kept supply higher than demand this year.
- The forecast for newsprint is for moderate growth due to stronger global demand in 2000. Newsprint prices are expected to average US\$510 per tonne in 1999 and US\$535 per tonne in 2000.



## MANUFACTURING

- Because of the diversified nature of the Alberta economy, it did not suffer any significant downturn despite low oil prices in 1998 and the first part of 1999.
- Manufacturing accounts for approximately 10 per cent of Alberta's economy. In 1998, the value of manufacturing shipments was \$33.4 billion, two-thirds of which are resource based (food processing, petrochemicals, refined petroleum and forest products).

Alberta Manufacturing

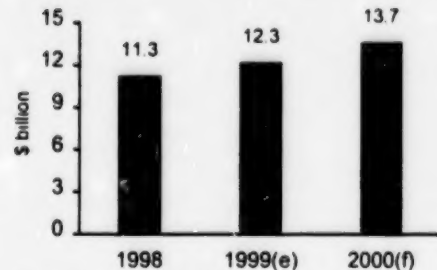


Sources: Statistics Canada, AED

- The value of refined petroleum product shipments were down sharply in the first half of 1999 due to lower oil prices. Similarly, machinery and fabricated metal shipments were lower primarily due to the decline in demand for oil and gasfield equipment.
- With an expected slowdown in the US economy, demand for Canada's manufactured goods is also expected to slow. However, because of improved commodity prices no such slowdown is expected for Alberta in 2000.
- Recovery in Alberta's manufacturing sector is underway and it is expected that it will continue to contribute to the province's overall growth into 2000. Real growth in manufacturing should reach 2 to 3 percent next year.

- International exports of Alberta's manufactured goods are expected to do well in 2000, with forecast growth of around 10%.

Alberta Manufacturing Exports



Sources: Statistics Canada, AED

- With the recovery in oil prices over the later part of the year, demand for oil and gasfield equipment will strengthen. Given the lag between increased oil prices and generation of cash flow, this demand will gain greater momentum in the early part of 2000.
- Improvement in Alberta's manufacturing sector will be reflected in chemical markets. Additional ethylene and derivatives capacity will be contributing factors to the growth in chemical manufacturing.
- Alberta's food and beverage processing industry continues to expand. Shipments are expected to increase, particularly with the expansion in cattle, potato and hog processing. Expanded plant capacity and slaughter numbers in 1999 are major contributing factors. Also, an additional new major potato processing operation will come on stream in 2000. For the first nine months of 1999, food and beverage shipments were up 3.3 per cent.

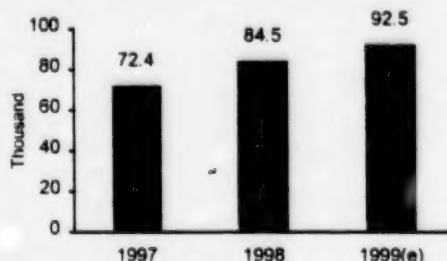
- Alberta's electrical and electronics industry should again outperform the manufacturing sector as a whole in 2000. Contributing to this will be continued demand for telecommunications equipment.
- Major new investments in oil sands, conventional drilling activity and construction will drive growth in Alberta's machinery and equipment industry. Demand should increase significantly over the next year.
- Slower demand from Asia and low prices have discouraged production in Alberta's chemical industry to date. Currently, commodity prices are beginning to recover as US demand grows. However, additional capacity and regulatory changes may weaken prices over the next two years. Expansion in Alberta's petrochemical industry is expected to increase its capacity by 20% in the second half of 2000.

## ADVANCED TECHNOLOGY

- Alberta's advanced technology sector includes companies engaged in activities such as electronics, computing, biotechnology, telecommunications, and engineering services. The electronics industry alone generates almost \$6 billion in revenues and employs close to 10,000 Albertans.
- Employment in advanced technology has shown tremendous growth, averaging over 15 per cent annually in the last 5 years. In comparison, Alberta's total employment growth has averaged about 3.2 per cent over the same period.

- Alberta's advanced technology manufacturing sector should continue to do well into 2000. Growth over the next year will be fuelled by continued demand for computers and telecommunications equipment. As well, demand in the technology services sectors, particularly engineering, should increase significantly next year. This is due to a number of major construction projects in Alberta, e.g. oil sands and refineries.

**Alberta Advanced Technology Employment**



Sources: Statistics Canada, AED

- Other factors influencing the sector's growth include over \$185 million in pharmaceutical investments, \$60 million in a wireless facility and a \$15 million engineering research facility at the University of Alberta.
- Currently, Alberta's advanced technology sector employs almost 85,000 and should continue to outperform other sectors of the economy. In particular, the province's investment in technology should generate additional activity within the sector, for example Alberta's \$30 million iCORE (Informatics Circle of Research Excellence) fund to attract researchers.

## CONSUMER SPENDING

- Alberta retail sales showed little change from early 1998 through the first half of 1999, mostly because of weak vehicle sales. Between May and September, however, retail sales increased by 9.3 per cent, as a result of strong growth in sales of automobiles, furniture and appliances, and higher gasoline prices. The recent growth in retail sales caused the 1999 growth estimate to increase to 4 per cent, less than the national average.
- In 2000, retail sales are expected to further strengthen and increase by about 4.8 per cent, which will be among the strongest growth in retail sales of all provinces.
- After falling sharply throughout 1998, consumer confidence in the Prairies has strengthened in 1999, and had gained 6 per cent by the third quarter of 1999, compared with the fourth quarter of 1998. It is believed that in the case of Alberta, a recovery in the energy sector, continued employment growth, tax cuts and an increase in construction activity have made Albertans more optimistic about future spending.



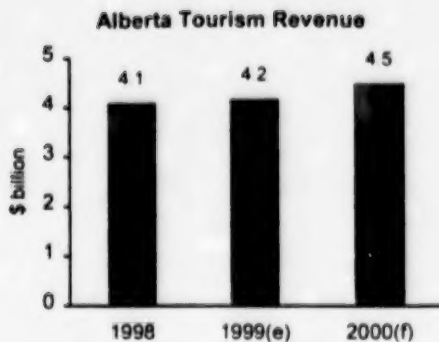
Sources: Statistics Canada, AED

- The positive overall employment picture is expected to result in spending growth in 1999 and 2000. Recent employment growth has been predominantly in full-time jobs.

## TOURISM

- Preliminary data and reports from tourism operators in Alberta suggest that 1999 was a rather modest year for tourism, with the exception of the Mountain Parks, which experienced strong growth from international markets.
- With above-average economic growth forecast in Alberta next year and good employment prospects, travel by Albertans is expected to increase approximately 5 per cent in 2000. Growth in business travel will be especially strong. In-province tourism marketing initiatives are also expected to stimulate pleasure travel next year. However, Albertans travelling for pleasure in the province are expected to be price-conscious so spending by these visitors is expected to rise about 2 per cent next year.
- The outlook for other Canadians travelling to Alberta in 2000 is mixed. The forecast for employment growth and gains in disposable income suggest that domestic travel will strengthen. However, there is a significant increase in the number of Canadians reporting that they will take a winter vacation outside of Canada, attributed to the growth in disposable income and possibly a reaction to spending another winter in Canada. Growth in the number of other Canadian visitors to Alberta is forecast to increase approximately 3 per cent.





Sources: Statistics Canada; AED

- The US is expected to remain the key international market again this year. The positive economic outlook for states that are key markets for Alberta will ensure that the US remains an important market for Alberta. Growth by overnight US visitors to Alberta is forecast to increase approximately 3 per cent in 2000.
- Visits from major overseas markets are also expected to increase next year. In particular, the UK is likely to remain a strong market for Alberta. Personal incomes have risen substantially and so has consumer spending, including spending on travel. The British pound is expected to remain strong against the Canadian dollar, at least through 2000. The number of UK visitors to Alberta is expected to increase about 4 per cent in 2000.
- Travel from Japan is expected to improve again in 2000, building on the rebound that occurred in 1999. However, the economic conditions in Japan continue to be difficult since they are deeply structural, rather than cyclical. A large segment of Japanese travelers have become much more value conscious because of the most recent economic crisis. Spending by Japanese visitors to Alberta is expected to be more modest than it has been in the past. The number of Japanese visitors to Alberta is expected to increase approximately 4 per cent in 2000.

- Travel by residents from other Asia-Pacific markets is also expected to improve next year, with the possibility of strong growth from Taiwan and South Korea.
- Overall, tourism revenues in Alberta are expected to reach approximately \$4.2 billion in 1999 and \$4.5 billion in 2000.

## HOUSING AND NON-RESIDENTIAL CONSTRUCTION

- According to the latest Statistics Canada survey of *Private and Public Investment in Canada* for 1999, total capital expenditures on new construction in Alberta is expected to fall by 1 per cent in 1999 to \$19.1 billion as a result of a 13 per cent drop for the energy sector. Non-energy construction is expected to grow by a strong 9 per cent, with strong growth in pipelines and petrochemical projects, and also in local government and telecommunications.
- For 2000, little or no growth is forecast for construction for the non-energy sector, but energy construction is expected to rise sharply, as the number of wells drilled could increase by as much as 30 per cent, and oil sands construction continues to increase.
- Although the number of Alberta housing starts dropped sharply during the first half of 1999, the new housing market has strengthened considerably since then.

- The economic slowdown in early 1999, combined with a large single-family home inventory caused a sharp decline in starts in Calgary. Since then, starts have more or less stabilized in Calgary and risen in Edmonton. As a consequence, the number of 1999 housing starts is not expected to fall far short of 1998's high level. The number of starts has been revised upward to 25,500 (based on a combination of CMHC, private sector forecasts, and actual starts during the first ten months of 1999).
- The firming up of resource prices and a stronger global economy will likely more than offset the effects of an expected decline in net inter-provincial in-migration (BC's economy has strengthened) and an oversupply of multi-family housing in Calgary. Starts are therefore forecast to increase to 25,800 in 2000.
- The value of institutional building permits rose 67 per cent during the first nine months of 1999, while the value of commercial and industrial permits declined by 27 per cent and 53 per cent, respectively.



Sources: CMHC; AED

- Engineering construction is estimated to have grown by about 5% in 1999 to a value of \$12.2 billion. The outlook is for lower growth of between 1% and 2% in 2000. Engineering construction relates to oil processing facilities, oil sands projects, pipelines, and large petrochemical projects.